



Economic Indicators

Prepared by the Department of Finance • September 2003

The purpose of this report is to keep policy makers apprised of changes in the national and local economies that the Montgomery County Department of Finance believes may impact current and/or future revenues and expenditures.



*This report is also available through the Internet on the Montgomery County Web Page:
<http://www.montgomerycountymd.gov>*

For questions regarding this report, please contact:

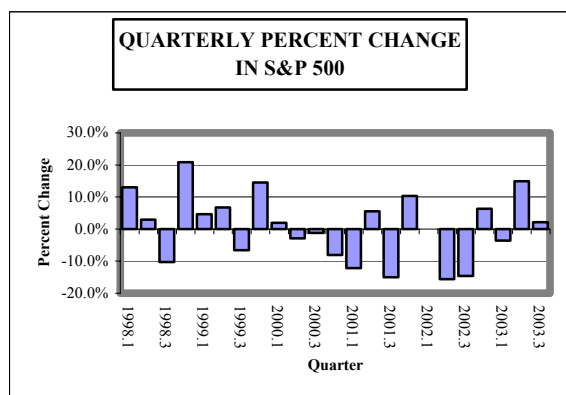
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ECONOMIC OVERVIEW

The national economy grew 7.2 percent during the third quarter of this year. Two components of the gross domestic product contributed to the increase – consumer spending (+6.6%), and business investment excluding inventories (+14.0%). Consumer spending remains the foundation of this economic recovery with purchases of durable goods increasing 26.9 percent, which followed an increase of 24.3 percent in the second quarter. The dramatic increase in business investment was attributed to a healthy increase in equipment and software (+15.4%) and residential housing (+20.4%).

The financial markets continued their recovery in the third quarter. The S&P 500 stock index grew 2.2 percent during the third quarter and a strong 14.9 percent during the second quarter. It was the first time since 1999 that the index increased two consecutive quarters. The NASDAQ also continued its upward momentum increasing 10.1 percent during the third quarter, which followed a 21.0 percent increase during the second quarter. The NASDAQ has increased the last four quarters, the first time since late 1998 and early 1999 that the index experienced four consecutive quarters of growth.



The Federal Reserve continued to maintain an accommodative monetary policy during the third quarter. Following its meetings in August and September, the Federal Open Market Committee (FOMC) kept its target rate for the federal funds at 1 percent. The FOMC stated that the accommodative stance coupled with growth in productivity provided support for the economic recovery.

Mortgage rates increased almost a full percentage point during the third quarter raising concerns among homebuilders and realtors about the continuing strength of the housing market. Thirty-year fixed rate mortgages increased from 5.23 percent in June to 6.26 percent in August, before falling slightly to 6.15 percent in September, and again in October to 5.95 percent.

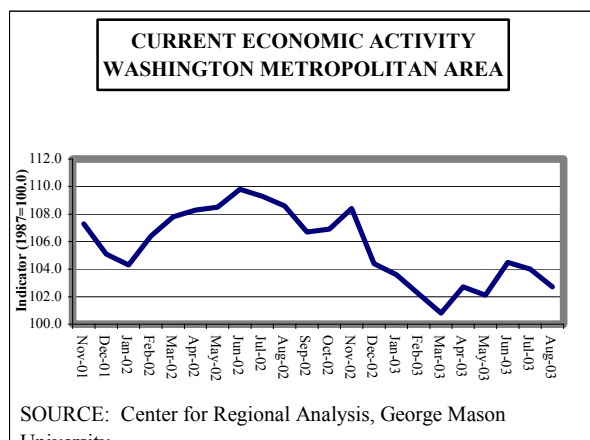
The employment situation improved significantly during the third quarter. The nation gained over 160,000 jobs in August and September. All of the increase occurred within the service-providing sector, which gained almost 192,000 jobs, while the goods-producing sector continued to lose almost 32,000 jobs. The growth that occurred during August and September continued through October with payroll jobs increasing by 126,000. The growth of over 250,000 jobs during the months of September and October was the largest two-month gain since November-December 2000.

With improvement in the employment situation during September and October, consumer confidence rebounded in October after dropping in September to its lowest level since February and March of this year. Consumer's opinion of present-day conditions in October ended a five-month slide. Most of the turnaround was attributed to the respondents' sentiment about the job

market. The percentage of respondents who claimed jobs were plentiful increased, while those who claimed jobs were hard to get declined.

Inflation remained subdued with consumer prices increasing 2.3 percent between September 2002 and September 2003 period. In fact, the “core” rate of inflation increased a meager 1.2 percent over the same period.

While the national economy expanded during the third quarter of this year, the regional economy continued to struggle following the harsh winter. The Washington Coincident Index, which is a measure of the current state of the Washington metropolitan economy, decreased in August for the second month in a row. Two of the four index’s components remained a drag on the regional economy. Those indices included payroll employment (-1.1%) and consumer confidence (-22.2%). The other indicators, purchases of nondurable goods and domestic airport passengers increased during July and August. Overall the index has declined six out of eight months of this year with consumer confidence exhibiting the largest drag on the region’s economy.



Even though current economic conditions were lackluster during the third

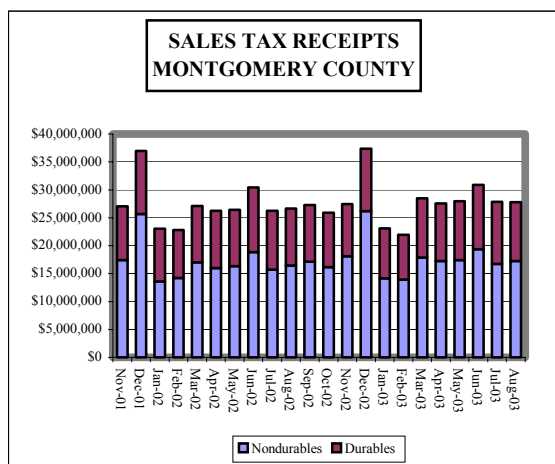
quarter, the leading index suggested that the region’s economy is expected to move from an erratic performance to a sustained expansion during the final quarter of this year and the first quarter of next year. The decline in payroll jobs appeared to have ended and consumer spending, particularly purchases on durable goods, showed continued growth. With the national economy improving since the end of the recession, such improvement may also influence the regional economy, especially a rebound in consumer confidence and expectations.

Similar to the region’s economy, Montgomery County’s economy also experienced mixed results during the third quarter:

- Retail sales, as measured by sales tax receipts, continued to rebound during the third quarter compared to the third quarter of last year.
- Overall inflation increased in July after declining significantly in May. “Core” inflation also picked up in July following a drop in May.
- Sales of homes increased dramatically during July and August after a lackluster winter and spring.
- New construction continued to decline during the third quarter of this year and office vacancy rates remained at historic highs.
- Payroll employment, especially private sector employment, remained weak during the first quarter of this year, the latest date for which data are available.

MONTGOMERY COUNTY ECONOMIC INDICATORS

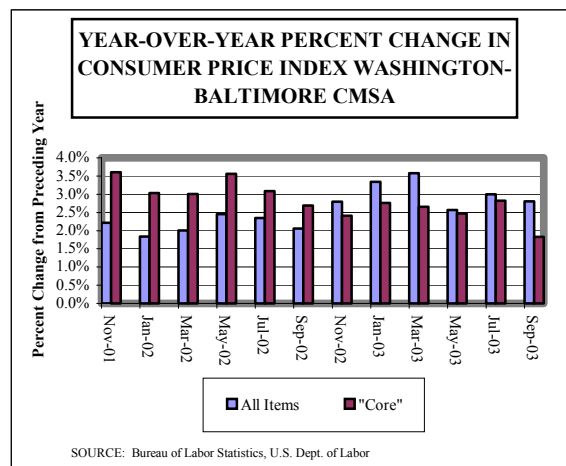
Retail sales increased 4.1 percent in August compared to August of last year. August's increase followed a strong 7.1 percent increase in July and a weak 1.7 percent increase in June. During the first eight months of this year, sales tax receipts increased 2.8 percent compared to the same period last year. Most of the increase was in the purchase of nondurable goods (+4.5%) compared to durable goods (+1.0%). Excluding the very weak sales performance in January and February, sales tax receipts increased 4.1 percent over last year.



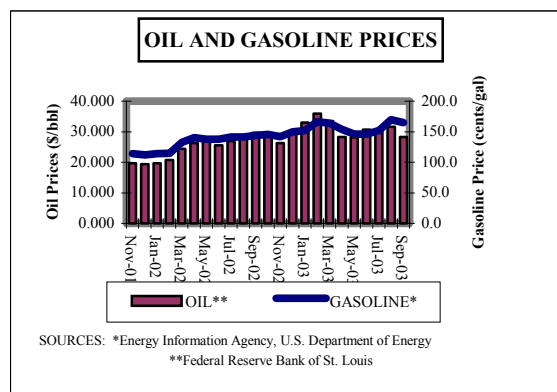
The growth in sales of nondurable goods was attributed to utilities and transportation (+18.8%) and merchandise items (+3.5%). The weak performance in the purchases of durable goods was due to a very weak January and February sales period. Excluding those months, sales of durable goods between March and August increased 3.2 percent compared to the same March-August period of 2002.

Inflation as measured by the Consumer Price Index remained subdued with the "core" inflation rate increasing 2.8 percent in July compared to July of last year and the

overall rate increasing 3.0 percent. However, both rates for the metropolitan region have been above the national rates (2.1% and 1.5%, respectively). The difference is attributed to the cost of regional housing, which grew nearly a full percentage point above the national rate.



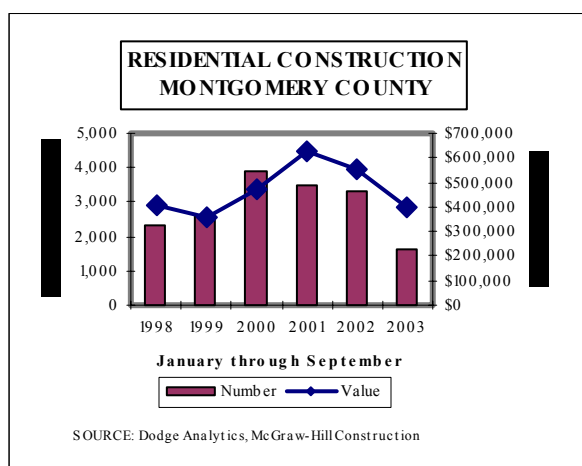
The overall inflation rate for the region experienced an uneven pattern during FY03. After declining to 2.1% in September, it began a dramatic increase during the late fall and winter period. From September 2002 through March 2003, the index increased one and a half percentage points to 3.6 percent. The rapid increase was attributed in large part to energy prices, particularly gasoline prices during the winter and early spring, and housing prices.



From December 2002 to February 2003, the average price of gasoline in the region increased 55 cents per gallon. Since the end of February, gasoline prices increased an additional 3 cents per gallon reaching a decade high of \$1.70 for regular grade. The run up in prices during the winter was attributed to an 85.6 percent hike in the price of a barrel of oil. Since February, the price of a barrel of oil dropped from \$36 to \$28. Since gasoline prices did not experience a similar decline, the principal cause for the rise in gasoline prices was the late spring and summer travel period when prices are traditionally high.

Construction

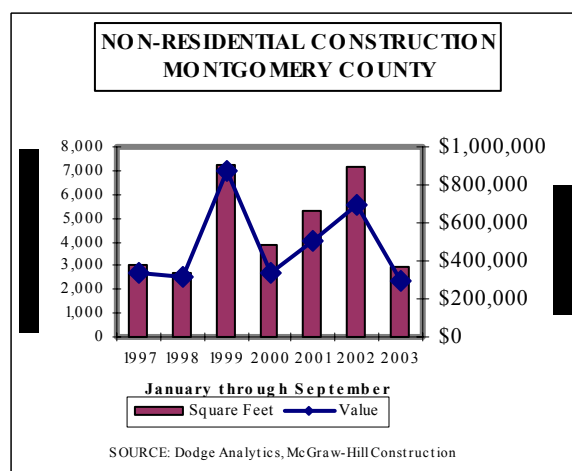
Construction and sales of real estate continued to play a significant role in Montgomery County's economy and revenue sources for the County Government. Over 40 percent of general fund revenues come from the property tax base. As such, the condition of residential and non-residential construction and transactions is important to the growth of the County.



The number and value of residential construction projects declined in the County during the first nine months of this year compared to the same period last year. The number of construction projects declined 50

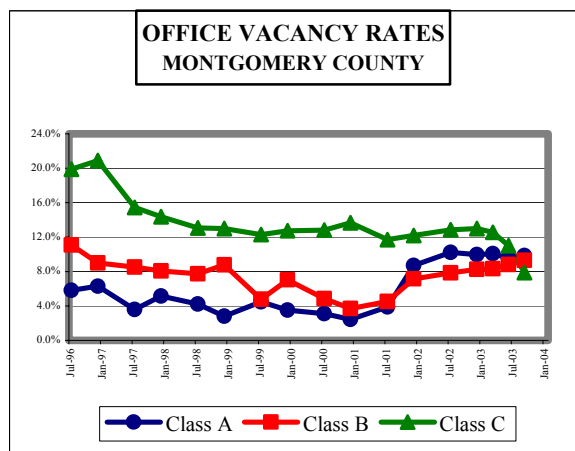
percent between January and September. Such a dramatic drop in residential construction follows a 3.6 percent decline during the same period in 2002 and another 11.2 percent in 2001. The value of new residential construction experienced the same pattern declining 28 percent between January and September of this year and 12.2 percent during the same period last year. Such declines suggest that fewer residential properties are added to the property tax base while the supply of housing may not meet rapid demand in the near term.

Non-residential construction also declined during the January through September period compared to the same period last year. Both the amount of square footage and value declined almost 60 percent compared to the previous period. That decline follows the two previous nine-month periods, which had growth rates of 33.9 percent (2002) and 38.5 percent (2001) in amount of square footage and 36.7 percent (2002) and 50.7 percent (2001) in added value. Unlike residential construction in which supply is not meeting demand, the drop in non-residential construction during 2003 is adjusting to an oversupply of commercial space.



The decline of non-residential construction was in response to the

overcapacity of vacant commercial space in the County. Since December 2001, the average vacancy rate for Class-A type property was 9.7 percent reaching 9.9 percent in September. Both measures were significantly below September's vacancy rates for Loudon and Fairfax Counties in Northern Virginia, which were 15.6 percent and 16.1 percent, respectively. While well below Northern Virginia's rates, Montgomery County's rate increased dramatically compared to the pre-December 2001 average rate of 4.2 percent. Most of the run up in vacancy space is attributed to the recession, a weak economic recovery, and a decline in the information technology industry since 2000. With the outlook for the County's economy improving and the slowdown in non-residential construction, the vacancy rate should decline but not necessarily to levels experienced pre-December 2001.



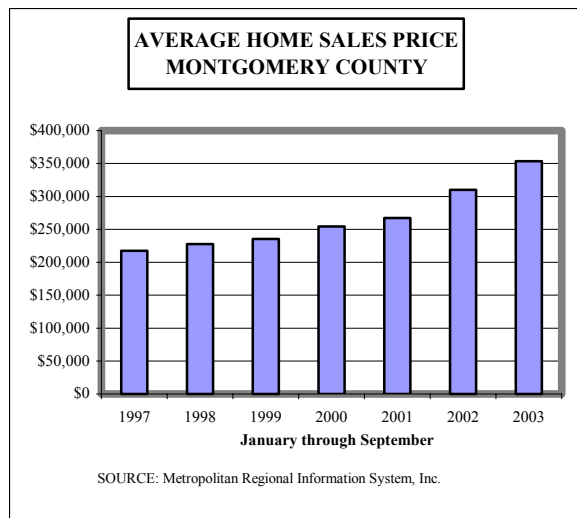
Residential Real Estate

During the first nine months of this year, average home prices increased 13.9 percent compared to the same period last year. That increase follows a 16.5 percent increase in 2002. With historic low mortgage interest rates, Montgomery County residents continued to invest in residential real estate.

With the strong demand for housing and a limited supply, prices will continue to rise in the near term.

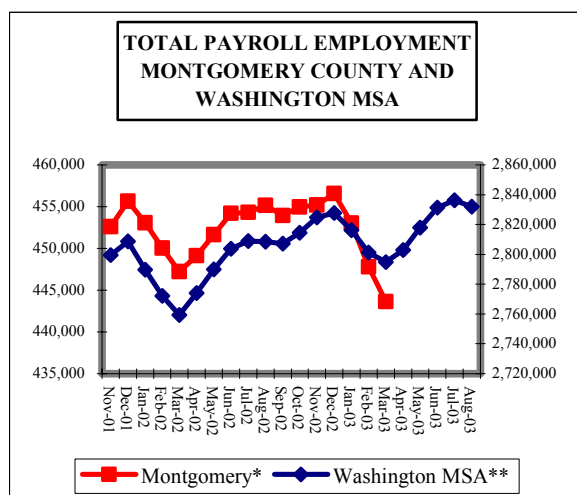
Based on the most recent housing data, average home prices in the County increased \$80,000, or 27 percent, over a 16-month period. In its 2003 Home Price Comparison Index, Coldwell Banker® Real Estates Corporation identified the Bethesda/Chevy Chase area as the most expensive market in Maryland with a “comparable” average sales price of \$345,000 for a 2,200 square foot home. However, while prices in the County have accelerated over the past three years, the Bethesda/Chevy Chase market ranks far behind the most expensive markets in the nation, whose average sales prices were over \$1,000,000 for a similar home. The Bethesda/Chevy Chase market was almost fifty percent below the most expensive market in Virginia (Alexandria, \$675,000).

A second series of housing price indices derived by the Office of Federal Housing Enterprise Oversight ranked the Washington metropolitan region as 41st out of 220 metropolitan areas in the rate of increase of average home prices from the second quarter of 2002 to the second quarter of 2003. Home prices increased an average of 8.1 percent during this period and 52.8 percent over the past five years. Home price in the Baltimore metropolitan region grew at a higher rate of 8.4 percent during the same period. California dominated the top 20 metropolitan areas in housing price appreciation with 10 metropolitan regions exhibiting significant increases, followed by Florida with 4 metropolitan regions ranking in the top 20 nationwide.



Payroll Employment

Total payroll employment grew a meager 0.4 percent during the first three quarters of FY03, the latest date for which data are available. That weak performance between July 2002 and March 2003 follows a weaker performance during FY02 when employment declined 0.1 percent.



The significance of the federal government in Montgomery County's economy is provided in the recent employment data. While the private sector

lost some 2,800 jobs since FY01, the public sector, particularly the federal and local government sectors, added over 3,000 jobs in the County. Hence, while the County's private sector experienced the same employment situation as the nation, the presence of the federal government has more than offset the decline in private sector employment.

While growth in payroll employment in the County remained low at this point in the economic recovery by historical standards, the number of jobs is expected to increase during the second and third quarters of this year. Since such data are not yet available, the chart comparing the County's trend to the region's trend suggests that the number of jobs may have increased since the low point in March. If that trend holds, the number of payroll jobs would nevertheless only match the total number in July of last year and therefore, there may have been no job growth in the County in FY03.

The labor force data provide a different picture of the employment situation in the County. Based on the survey of households in the County, the total labor force grew 0.9 percent between January and September of this year compared to the same period last year. At the same time, resident employment grew 1.0 percent. Because resident employment grew at a faster rate than the labor force, the County's unemployment rate dropped from 2.7 percent in September 2002 to 2.5 percent in September of this year. The County's unemployment rate remains the lowest among the twenty-three counties and Baltimore City, and almost two percentage points below the state average (4.1%).

The near-term outlook for the County's economy and the region's economy appears to be positive. With the Washington Leading Index, which is designed to forecast future performance of the regional economy, gaining 2.1 percent in the last four to five months, the region's economy should experience sustainable growth through the remainder of this year and into the early part of 2004. The large increase in federal

procurement to the County's private sector should help boost employment during the second half of 2003 and the first half of 2004. With the expectation of more jobs in the County, retail sales, especially purchases of durable goods, should show marked improvement while sales of new and existing homes should expand further assuming mortgage rates remain near their historic low levels.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		2002
				2003	2002	
Leading Indicators						
National	Sept	-0.2%		0.2%		-0.2%
Washington MSA	Aug	1.2%		0.3%		-0.6%
Coincident Indicators						
National	Sept	0.1%		0.4%		0.7%
Washington MSA	Aug	-1.3%		-4.7%		-0.7%
Consumer Confidence Index						
National	Sept	-5.8%		-24.2%		-14.7%
South Atlantic Region	Sept	-4.5%		-20.4%		-9.6%
Consumer Sentiment (University of Michigan)	Sept	-1.8%		-5.8%		-2.4%
Consumer Price Index						
All Items						
National	Sept	2.3%		2.4%		1.6%
Washington - Baltimore CMSA	Sept	2.8%		3.1%		2.4%
Core CPI						
National	Sept	1.2%		1.5%		2.4%
Washington - Baltimore CMSA	Sept	1.8%		2.5%		2.9%
Retail Trade						
National (sales - nsa)	Sept	9.2%		5.3%		3.1%
Washington MSA (sales - nsa)	Aug	4.2%		5.5%		3.0%
Maryland (sales tax)	Aug	4.1%		1.5%		1.6%
Montgomery County (sales tax)	Aug	4.1%		2.8%		0.9%
Employment						
National (household data - nsa)	Oct	138,619,000	137,551,000	137,557,000	136,454,000	136,485,000
- Percent Change		0.8%		0.8%		-0.3%
Washington PMSA (household data - nsa)	Sept	2,769,499	2,718,163	2,759,900	2,719,800	2,719,777
- Percent Change		1.9%		1.5%		3.7%
Montgomery County (resident)	Sept	496,897	792,179	494,480	488,720	489,673
- Percent Change		-37.3%		1.2%		2.5%
Montgomery County (payroll)	March	445,806	450,247	443,613	447,218	453,145
- Percent Change		-1.0%		-0.8%		0.7%
Unemployment						
National (nsa)	Oct	5.6%	5.3%	6.1%	5.8%	5.8%
Maryland (nsa)	Sept	4.1%	4.1%	4.4%	4.4%	4.4%
Washington PMSA	Sept	3.2%	3.6%	3.5%	3.8%	3.7%
Montgomery County	Sept	2.5%	2.7%	2.6%	2.8%	2.8%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousand)	Sept	\$57,207	\$123,024	\$693,884	\$1,248,500	\$1,595,801
- Percent Change		-53.5%		-44.4%		9.5%
Residential (\$ thousand)	Sept	\$29,204	\$86,211	\$396,222	\$551,564	\$744,066
- Percent Change		-66.1%		-28.2%		-4.2%
Non-Residential (\$ thousand)	Sept	\$28,003	\$36,813	\$297,662	\$696,936	\$851,735
- Percent Change		-23.9%		-57.3%		25.0%
Building Permits (Residential)						
National	Sept	163,135	143,526	1,403,731	1,305,331	1,747,678
- Percent Change		13.7%		7.5%		6.8%
Maryland	Sept	2,263	2,548	22,591	21,862	29,293
- Percent Change		-11.2%		3.3%		0.8%
Montgomery County	Sept	312	543	3,308	3,215	5,013
- Percent Change		-42.5%		2.9%		-1.5%
Building Permits (Non-Residential)						
Montgomery County	Sept	172	152	1,435	1,428	1,858
- Percent Change		13.2%		0.5%		-11.6%
Real Estate						
National						
Sales	Sept	6,690,000	5,540,000	6,040,000	5,540,000	5,566,000
- Percent Change		20.8%		9.0%		5.1%
Median Price	Sept	\$172,300	\$157,900	\$168,900	\$156,500	\$158,100
- Percent Change		9.1%		7.9%		7.0%
Montgomery County						
Sales	Sept	1,473	1,349	12,334	11,612	16,030
- Percent Change		9.2%		6.2%		3.1%
Average Price	Sept	\$369,060	\$310,453	\$357,989	\$314,500	\$320,418
- Percent Change		18.9%		13.8%		16.5%
Median Price	Sept	\$303,900	\$252,000	\$288,867	\$247,217	\$255,275
- Percent Change		20.6%		16.8%		18.7%
Average Days on the Market	Sept	27	23	28	25	25

METROPOLITAN AREA OFFICE MARKET

Office Vacancy Rate by Jurisdiction and Class, 09/03

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudon	15.6%	18.1%	7.3%	16.1%
Fairfax	16.1%	11.5%	7.2%	14.4%
Frederick	4.4%	9.8%	14.3%	7.5%
Alexandria/Arlington	10.7%	10.1%	4.7%	9.6%
Montgomery	9.9%	9.3%	7.9%	9.4%
District of Columbia	7.7%	5.2%	8.7%	6.9%
Prince George's	13.0%	9.6%	10.7%	11.4%
<i>Metropolitan Area</i>	11.6%	8.8%	7.8%	10.3%

Vacant Office Space Inventory by Jurisdiction and Class (sq.ft.)

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudon	886,196	635,550	37,967	1,559,713
Fairfax	10,754,044	3,224,958	250,311	14,229,313
Frederick	91,230	154,589	57,523	303,342
Alexandria/Arlington	2,511,799	1,808,386	325,490	4,645,675
Montgomery	3,112,197	2,054,775	507,352	5,674,324
District of Columbia	4,647,507	2,149,403	1,089,848	7,886,758
Prince George's	1,289,197	737,111	357,254	2,383,562
<i>Metropolitan Area</i>	23,292,170	10,764,772	2,625,745	36,682,687

Office Space Inventory by Jurisdiction and Class (sq.ft.)

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudon	5,688,340	3,507,086	521,635	9,717,061
Fairfax	66,965,161	28,133,788	3,493,707	98,592,656
Frederick	2,073,049	1,572,386	403,352	4,048,787
Alexandria/Arlington	23,514,548	17,902,650	6,938,465	48,355,663
Montgomery	31,577,950	22,063,738	6,419,769	60,061,457
District of Columbia	60,476,915	41,151,093	12,455,438	114,083,446
Prince George's	9,879,365	7,711,047	3,343,717	20,934,129
<i>Metropolitan Area</i>	200,175,328	122,041,788	33,576,083	355,793,199

Share of Office Space Inventory by Jurisdiction and Class

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudon	58.5%	36.1%	5.4%	100.0%
Fairfax	67.9%	28.5%	3.5%	100.0%
Frederick	51.2%	38.8%	10.0%	100.0%
Alexandria/Arlington	48.6%	37.0%	14.3%	100.0%
Montgomery	52.6%	36.7%	10.7%	100.0%
District of Columbia	53.0%	36.1%	10.9%	100.0%
Prince George's	47.2%	36.8%	16.0%	100.0%
<i>Metropolitan Area</i>	56.3%	34.3%	9.4%	100.0%

Note:

Office Space inventory includes leasable and owner-occupied space.
 Totals exclude non-classified space.
 Vacant means "direct vacant" and does not include sublease space.

Source:

Montgomery County Department of Planning, Research and Technology Center
 Data compiled from Realty Information Group commercial space data file, 09/16/03